Summary of action taken in the period October 2019 to March 2020

New borrowing

The council undertook £7.500m of new long term debt in the second half of 2019/20 to fund the HRA Capital Programme. No new General Fund debt was undertaken.

Debt maturity

PWLB Annuity repayments of £0.502m and PWLB Maturity repayments of £0.682m were repaid on 31 December 2019.

Lender options (where the lender has the exclusive option to request an increase in the loan interest rate and the council has the right to reject the higher rate and repay instead) on two loans were due in the 6 month period but no option was exercised.

Weighted average maturity of debt portfolio

The weighted average maturity period of the portfolio has increased from 27.8 years to 28.1 years. This is the result of a combination of a natural decrease of the maturity by six months and the new £7.5000m new HRA loan which has a maturity period of 49.5 years.

Debt rescheduling

No debt rescheduling was undertaken in the second half of the year.

Capital financing requirement

The prudential code introduces a number of indicators that compare borrowing with the capital financing requirement (CFR) – the CFR being the amount of capital investment met from borrowing that is outstanding. Table 1 compares the CFR with actual borrowing.

Table 1 – Capital financing requirement compared to debt outstanding

	1 April 2019	31 March 2020	Movement in period
Capital financing requirement (CFR)	£357.2m		
Less PFI element	(£47.0m)		
Net CFR	£310.2m	£334.1m	+£23.9m
Long-term debt	£255.9m	£271.0m	-£15.1m
O/s debt to CFR (%)	82.5%	81.1%	-1.4%

Traditionally, the level of borrowing outstanding is at or near the maximum permitted in order to reduce the risk that demand for capital investment (and hence resources) falls in years when long-term interest rates are high (i.e. interest rate risk). However given the uncertainty within the financial markets, the council has maintained the strategy of keeping borrowing at much lower levels (as investments have been used to repay debt).

Currently, outstanding debt represents 81.1% of the capital financing requirement. The reduction from 82.5% on the previous year is a result of the net increase in the CFR resulting from using borrowing to fund parts of the capital programme being higher than the increase in the external debt to finance this increase.

Cash flow debt / investments

The TMSS states the profile of any short-term cash flow investments will be determined by the need to balance daily cash flow surpluses with cash flow shortages. An analysis of the cash flows reveals a net deficit for the 2nd half of the year of £6.9 million. Usually, the annual standard pattern of cash flow shows higher levels of income in the earlier part of the year and higher levels of spending in the latter.

Table 2 – Cash flow October 2019 to March 2020

	October 19 to March 20			Apr 19 to Mar 20
	Payments	Receipts	Net cash	Net cash
Total cash for period	-£489.9m	£483.0m	-£6.9m	-£12.2m
Represented by:				
(Increase)/Decrease in in-house investments			-£2.3m	£3.4m
Increase/(Decrease) in long-term borrowing			£6.3m	£14.5m
Increase/(Decrease) in Short term borrowing (including SDNPA[1])			£2.0m	-£6.0m
Movement in balance at bank			£0.9m	£0.3m
			£6.9m	-£12.2m

Overall, the cash position for the financial year is therefore a net deficit of £12.2 million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2019/20 at its meeting in February 2019. Taken together the indicators demonstrate that the council's capital investment plans are affordable, prudent and sustainable.

In terms of treasury management, the main indicators are the 'authorised limit' and 'operational boundary'. The authorised limit is the maximum level of borrowing that can be outstanding at any one time. The limit is a statutory requirement as set out in the Local Government Act 2003. The limit includes 'headroom' for unexpected borrowing resulting from adverse cash flow movements.

The operational boundary represents the level of borrowing needed to meet the capital investment plans approved by the council. Effectively it is the authorised limit minus the headroom and is used as an in-year monitoring indicator to measure actual borrowing requirements against budgeted forecasts.

Table 3 compares both indicators with the maximum debt outstanding in the second half year.

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2019/20

	Authorised limit	Operational boundary
Indicator set	£420.0m	£406.0m
Less PFI element	-£47.0m	-£47.0m
Indicator less PFI element	£373.0m	£359.0m
Maximum amount o/s in second half of year	£271.0m	£271.0m
Variance	(*)£103.0m	£88.0m

(*) cannot be less than zero

[1] SDNPA (South Downs National Park Authority) cash/investments are managed on their behalf under contract with Brighton & Hove City Council.

Performance

Details of the performance of investments are shown in graph 4 in Appendix 2. The actual investment rates achieved have exceeded the benchmark rates.

Approved organisations – investments

No new organisations were added to the list approved in the Annual Investment Strategy (AIS) 2019/20.

Debt Portfolio as at 31 March 2020

Table 4 shows the debt portfolio as at 31 March 2020, analysed by fund.

Table 4 – Debt External Portfolio as at 31 March 2020 by fund

Fund	Debt Outstanding
General Fund – General	£109.773m
General Fund – i360	£29.685m
Total General Fund	£139.458m
HRA	£131.562m
Total Debt	**£271.020m**

The total debt portfolio is made up of borrowing from the Public Works Loans Board (PWLB), and market lenders. Table 5 illustrates the amount outstanding and average rate of borrowing of each of these parts of the portfolio as at 31 March 2020.

Table 5 – amount outstanding as at 31 March 2020 and average rate by loan type

Lender	Loan Type	Amount Outstanding at 31 March 2019	Average rate
PWLB	Fixed Maturity	£196.335m	3.69%
PWLB	Annuity	£29.685m	2.78%
Market Lenders	LOBOs	£25.000m	4.43%
Market Lenders	Fixed Maturity	£20.000m	4.49%
Total Borrowing		**£271.020m**	**3.82%**

The debt outstanding to market lenders is made up of LOBO instruments (Lender Option Borrower Option) of £25.0m, and fixed market loans of £20.0m. The interest rates of these loans varies between 3.90% and 4.88%.